



PHUMELELA
LOCAL MUNICIPALITY

Phumelela Local Municipality
(Registration number :Demarcation number: FS 195)
Annual Financial Statements
for the year ended 30 June 2012

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

General Information

Legal form of entity	Local municipality
Nature of business and principal activities	Providing municipal services and maintaining the best interests of the local community mainly in the Vrede area.
Mayoral committee	
Executive Mayor	Mr T.J. Motaung
Councillors	Mrs T. R. Zwane Mr M. D. Kobeni Ms O.A. Mokoena Mrs T.N. Masiteng Mr O.S. Tshabalala Mr D.M. Nkabinde Ms J.M Mofokeng Mr S.E. Tshabalala
Grading of local authority	Low Capacity Grade 1 in terms of the Remuneration of Public Office Bearers Act
Chief Finance Officer (CFO)	Mr S.A Nyapholi
Accounting Officer	
	Mr. T.M. Moremi
Registered office	Civic Centre Cnr. Prinsloo and Kuhn Streets Vrede 9835
Business address	Civic Centre Cnr. Prinsloo and Kuhn Streets Vrede 9835
Postal address	Private Bag X5 Vrede 9835
Bankers	ABSA Bank Ltd
Auditors	Auditor General - Free State

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act 2003 (Act 56 of 2003)
MIG	Municipal Infrastructure Grant (Previously CMIP)

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the MFMA, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 47, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

Accounting Officer
T.M Moremi

Phumelela Local Municipality

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Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2012.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interests of the local community mainly in the vrede area. and operates principally in South Africa.

The operating results for the year were satisfactory for the following reasons. The financial position of the municipality is fair.

Net surplus of the municipality was 9,446,296 (2011: surplus 39,741,339).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

None.

5. Accounting policies

The annual financial statements have been prepared in accordance with the South African Statements of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act (Act 56 of 2003).

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name
Mr. T.M. Moremi

7. Auditors

Auditor General - Free State will continue in office for the next financial period.

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	8	25,910,116	25,838,655
Financial assets	5	-	708,318
Trade and other receivables from exchange transactions	9	2,575,332	9,634,024
Other receivables from non-exchange transactions	10	3,485,438	653,249
VAT receivable	11	1,372,704	1,130,049
Consumer debtors	12	1,955,441	4,974,999
Cash and cash equivalents	13	6,194,986	3,332,634
		41,494,017	46,271,928
Non-Current Assets			
Investment property	2	35,691,063	35,691,063
Property, plant and equipment	3	306,853,660	321,503,398
Intangible assets	4	103,599	15,287
Financial assets	5	668,153	172,659
		343,316,475	357,382,407
Non-current assets held for sale and assets of disposal groups		-	17,631
Total Assets		384,810,492	403,671,966
Liabilities			
Current Liabilities			
Financial liabilities	14	585,976	490,270
Trade and other payables from exchange transactions	17	55,247,712	41,290,915
Consumer deposits	18	236,820	234,172
Conditional grants and receipts	15	1,834,296	4,852,327
		57,904,804	46,867,684
Non-Current Liabilities			
Financial liabilities	14	2,544,073	3,067,213
Retirement benefit obligation	7	2,040,000	1,803,000
Provisions	16	1,638,270	1,503,000
		6,222,343	6,373,213
Total Liabilities		64,127,147	53,240,897
Net Assets		320,683,345	350,431,069
Net Assets			
Accumulated surplus		320,683,345	350,431,069

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Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Sale of goods		-	2,400
Rendering of services		3,411,389	470,422
Property rates	21	6,075,667	5,798,747
Service charges	22	23,978,308	20,261,124
Rental of facilities and equipment		1,298,625	905,669
Interest received (trading)		2,530,514	2,113,738
Public contributions and donations		2,295,000	-
Fines		96,048	87,196
Licences and permits		28,948	13,099
Government grants & subsidies	23	81,955,077	79,436,646
Other income	24	621,839	7,715,963
Interest received - investment	30	760,569	210,759
Total income		123,051,984	117,015,763
Expenditure			
Personnel	27	(28,127,545)	(22,752,924)
Remuneration of councillors	28	(4,221,221)	(3,048,361)
Depreciation and amortisation	31	(17,082,377)	(16,531,258)
Finance costs	32	(301,539)	(486,242)
Debt impairment	29	(20,011,622)	(11,719,645)
Repairs and maintenance		(8,264,807)	(8,054,321)
Bulk purchases	35	(16,106,106)	(12,857,472)
Contracted services	34	(2,469,803)	(2,077,372)
Operating grant expenditure		(1,823,823)	(2,833,819)
General Expenses	25	(15,196,845)	(13,159,599)
Total Expenditure		(113,605,688)	(93,521,013)
Surplus for the year		9,446,296	23,494,750

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2010	326,936,319	326,936,319
Changes in net assets		
Surplus/(deficit) for the period	23,494,750	23,494,750
Total changes	23,494,750	23,494,750
Balance at 01 July 2011	311,237,049	311,237,049
Changes in net assets		
Surplus/(deficit) for the period	9,446,296	9,446,296
Total changes	9,446,296	9,446,296
Balance at 30 June 2012	320,683,345	320,683,345

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Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		40,524,056	13,238,048
Grants		76,306,000	79,920,418
Interest income		760,569	210,759
Other receipts		-	5,266,963
		<u>117,590,625</u>	<u>98,636,188</u>
Payments			
Employee costs		(32,348,766)	(25,801,285)
Suppliers		(40,166,019)	(35,621,550)
Finance costs		(301,539)	(486,242)
Other payments		-	(1,176,412)
		<u>(72,816,324)</u>	<u>(63,085,489)</u>
Net cash flows from operating activities	36	<u>44,774,301</u>	<u>35,550,699</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(1,580,824)	(236,932)
Proceeds from sale of property, plant and equipment	3	12,390	-
Purchase of other intangible assets	4	(124,799)	(22,572)
Proceeds from sale of financial assets		212,824	(65,993)
Implementation of GRAP 17		(40,004,106)	(35,635,640)
Net cash flows from investing activities		<u>(41,484,515)</u>	<u>(35,961,137)</u>
Cash flows from financing activities			
Repayment of financial liabilities		(427,434)	1,866,055
Net cash flows from financing activities		<u>(427,434)</u>	<u>1,866,055</u>
Net increase/(decrease) in cash and cash equivalents		2,862,352	1,455,617
Cash and cash equivalents at the beginning of the year		3,332,634	1,877,017
Cash and cash equivalents at the end of the year	13	<u>6,194,986</u>	<u>3,332,634</u>

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of the loan that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Effective interest rate

The municipality used the borrowing interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

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Accounting Policies

1.2 Investment property (continued)

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Property - land	50 years
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Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Transitional provision

The municipality changed its accounting policy for investment property in 2012. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in 2. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2012 and investment property has accordingly been recognised at provisional amounts, as disclosed in 2.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

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Accounting Policies

1.3 Property, plant and equipment

Items of property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Estimated useful life
Land and buildings	
• Land	Not applicable
• Buildings	15 - 50 Years
Infrastructure assets	
• Electricity	15 - 50 Years
• Roads	30 Years
• Water	20 Years
• Sewerage	12 - 50 Years

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Accounting Policies

1.3 Property, plant and equipment (continued)

Other assets

• Office equipment	5 Years
• IT Equipment	3 Years
• Other Assets	2 - 5 Years
• Furniture and fittings	5 - 10 Years
• Motor vehicles	5 Years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2012. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2012 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

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Accounting Policies

1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.5 Tax

Value added tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.6 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.8 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.9 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

1.10 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.10 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.11 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.11 Revenue from non-exchange transactions (continued)

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.12 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.13 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.14 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.15 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.18 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.19 Presentation of currency

These annual financial statements are presented in South African Rand.

1.20 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.21 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Investments in derivative financial instruments

Derivative financial instruments are initially recorded at cost and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in accumulated surpluses/(deficits). Amounts deferred in net assets are recognised in the statement of financial performance in the same period in which the hedged firm commitment or forecasted transaction affects net surplus/(deficit).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the statement of financial performance as they arise.

1.22 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.23 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.24 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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2. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	35,933,438	(242,375)	35,691,063	35,933,438	(242,375)	35,691,063

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	35,691,063	35,691,063

Reconciliation of investment property - 2011

	Opening balance	Total
Investment property	35,691,063	35,691,063

Pledged as security

Carrying value of assets pledged as security:

No Investment Property assets were pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

3. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	10,746,000	-	10,746,000	10,746,000	-	10,746,000
Buildings	17,702,362	(1,758,158)	15,944,204	17,702,362	(1,758,158)	15,944,204
Plant and machinery	2,886,763	(1,304,742)	1,582,021	2,189,442	(675,818)	1,513,624
Furniture and fixtures	2,921,992	(1,105,802)	1,816,190	2,607,348	(594,217)	2,013,131
Motor vehicles	3,926,791	(1,863,331)	2,063,460	3,926,791	(1,103,566)	2,823,225
IT equipment	1,489,132	(648,153)	840,979	933,372	(273,792)	659,580
Infrastructure	329,630,106	(55,771,310)	273,858,796	329,630,106	(41,828,482)	287,801,624
Heritage	2,010	-	2,010	2,010	-	2,010
Total	369,305,156	(62,451,496)	306,853,660	367,737,431	(46,234,033)	321,503,398

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	10,746,000	-	-	-	-	10,746,000
Buildings	15,944,204	-	-	-	-	15,944,204
Plant and machinery	1,513,624	697,321	-	(532,754)	(96,170)	1,582,021
Furniture and fixtures	2,013,131	314,644	-	(511,585)	-	1,816,190
Motor vehicles	2,823,225	-	-	(759,765)	-	2,063,460
IT equipment	659,580	568,859	(12,390)	(375,070)	-	840,979
Infrastructure	287,801,624	-	-	(13,942,828)	-	273,858,796
Heritage	2,010	-	-	-	-	2,010
	321,503,398	1,580,824	(12,390)	(16,122,002)	(96,170)	306,853,660

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Land	10,746,000	-	-	10,746,000
Buildings	16,530,257	-	(586,053)	15,944,204
Plant and machinery	1,751,680	177,302	(415,358)	1,513,624
Furniture and fixtures	2,579,409	27,939	(594,217)	2,013,131
Motor vehicles	3,534,391	-	(711,166)	2,823,225
IT equipment	819,464	31,691	(191,575)	659,580
Infrastructure	301,744,450	-	(13,942,826)	287,801,624
Heritage	2,010	-	-	2,010
	337,707,661	236,932	(16,441,195)	321,503,398

Pledged as security

None of the assets have been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered of the municipality.

4. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Intangible assets	147,371	(43,772)	103,599	22,572	(7,285)	15,287

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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4. Intangible assets (continued)

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Intangible assets	15,287	124,799	(36,487)	103,599

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Intangible assets	-	22,572	(7,285)	15,287

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
5. Financial assets		
Available-for-sale		
Unlisted shares	668,133	172,639
At cost		
Member's funds	20	20
At cost		
	668,153	172,659
Held to maturity		
Other financial assets	-	708,318
Total other financial assets	668,153	880,977
Non-current assets		
Available-for-sale	668,153	172,659
Current assets		
Held to maturity	-	708,318
	668,153	880,977

Fair value information

Financial assets at fair value through surplus or deficit are recognised at fair value, which is therefore equal to their carrying amounts.

Fair value hierarchy of financial assets at fair value through surplus or deficit

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

Level 1 represents those assets which are measured using unadjusted quoted prices for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (as prices) or indirectly (derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 2

Unlisted Investments	668,153	880,977
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Fair value information

Available-for-sale financial assets are recognised at fair value, unless they are unlisted equity instruments and the fair value cannot be determined using other means, in which case they are measured at cost. Fair value information is not provided for these financial assets.

Available-for-sale equity investments not at fair value

Fair value information has not been provided for equity instruments that do not have a quoted market price and for which a fair value cannot be measured reliably.

The carrying amount of these financial instruments is as follows:

Vrystaat Koop Ltd		
Shares	5,000	5,000
Taurus Ltd		
Shares	20	20

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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5. Financial assets (continued)

Fair value of held to maturity investments

Sanlam Investment	-	172,659
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6. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Loans and receivables	Available-for- sale	Total
Other financial assets (non-current)	-	668,153	668,153
Trade and other receivables from exchange transactions	2,020,102	-	2,020,102
Consumer Receivables	5,150,155	-	5,150,155
Cash and cash equivalents	6,132,190	-	6,132,190
	13,302,447	668,153	13,970,600

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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6. Financial assets by category (continued)

2011

	Loans and receivables	Held to maturity investments	Available-for- sale	Total
Other financial assets (current)	-	708,318	-	708,318
Other financial assets (non-current)	-	-	172,659	172,659
Other receivables from exchange transactions	9,634,024	-	-	9,634,024
Consumer receivables	4,517,686	-	-	4,517,686
Cash and cash equivalents	3,322,191	-	-	3,322,191
	17,473,901	708,318	172,659	18,354,878

7. Employee benefit obligations

Defined benefit plan

It is the policy of the municipality to provide retirement benefits to all its employees who elect to participate in the different available schemes. A number of defined contribution provident funds, all of which are subject to Pensions Fund Act, exist for this purpose. The majority of employees belong to three defined benefit retirement funds. One fund is administered by the Provincial Pension Fund. The last actuarial valuation was dated 30 June 2011.

The municipality is under no obligation to cover any unfunded benefits

Post retirement benefit plan

Post retirement medical aid plan

The municipality contributes on a monthly basis to the following medical aid scheme:

Keyhealth

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(2,040,000)	(1,803,000)
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The fair value of plan assets includes:

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(1,803,000)	(1,582,000)
Net expense recognised in the statement of financial performance	(237,000)	(221,000)
Closing balance	(2,040,000)	(1,803,000)

Net expense recognised in the statement of financial performance

Current service cost	202,000	-
Interest cost	(152,000)	-
Actuarial gains/(losses)	(287,000)	(221,000)
Total included in employee related costs	(237,000)	(221,000)

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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7. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	1.41 %	1.61 %
Expected rate of return on assets	8.25 %	8.90 %
Assumed Medical Inflation	6.75 %	7.15 %

8. Inventories

Consumable stores	835,286	720,999
Water	48,830	91,656
Unsold Properties Held for Resale	25,026,000	25,026,000
	25,910,116	25,838,655

9. Trade and other receivables from exchange transactions

Trade debtors	1,992,383	1,889,738
Sundry debtors	582,949	28,323
Krynaauwslust Boerdery Trust	-	7,715,963
	2,575,332	9,634,024

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

None of the financial assets that are fully performing have been renegotiated in the last year.

10. Other receivables from non-exchange transactions

Government grants and subsidies	3,485,438	653,249
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11. VAT receivable

VAT receivable	1,372,704	1,130,049
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Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
12. Consumer debtors		
Gross balances		
Rates	11,195,298	9,770,645
Electricity	2,665,143	2,128,919
Water	17,898,872	11,464,775
Sewerage	18,596,997	14,666,008
Refuse	19,952,686	15,757,670
Other	426,018	392,628
Housing rental	103,762	74,493
Deposits no receipts	(8,616)	(417,041)
	70,830,160	53,838,097
Less: Provision for debt impairment		
Rates	(8,604,824)	(6,500,623)
Electricity	(2,525,262)	(1,590,215)
Water	(17,817,963)	(11,200,952)
Sewerage	(18,373,387)	(14,240,556)
Refuse	(19,819,947)	(15,330,038)
Other	(1,733,336)	(714)
	(68,874,719)	(48,863,098)
Net balance		
Rates	2,590,474	3,270,022
Electricity	139,881	538,704
Water	80,909	263,823
Sewerage	223,610	425,452
Refuse	132,739	427,632
Business service levies	426,018	392,628
Housing rental	103,762	74,493
Other (specify)	(1,741,952)	(417,755)
	1,955,441	4,974,999
Rates		
Current (0 -30 days)	521,727	658,590
31 - 60 days	223,754	282,451
61 - 90 days	1,338,609	1,689,760
91 - 120 days	224,168	282,973
121 - 365 days	282,216	356,248
	2,590,474	3,270,022
Electricity		
Current (0 -30 days)	59,944	230,852
31 - 60 days	41,711	160,635
61 - 90 days	18,423	70,948
91 - 120 days	16,804	64,715
121 - 365 days	2,999	11,554
	139,881	538,704

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
12. Consumer debtors (continued)		
Water		
Current (0 -30 days)	5,794	18,892
31 - 60 days	27,424	89,424
61 - 90 days	33,354	108,759
91 - 120 days	7,686	25,062
121 - 365 days	6,651	21,686
	80,909	263,823
Sewerage		
Current (0 -30 days)	94,866	180,498
31 - 60 days	71,326	135,709
61 - 90 days	51,117	97,258
91 - 120 days	6,301	11,987
	223,610	425,452
Refuse		
Current (0 -30 days)	44,643	143,823
31 - 60 days	44,907	144,673
61 - 90 days	35,607	114,712
91 - 120 days	7,582	24,424
	132,739	427,632
Other		
Current (0 -30 days)	45,691	42,110
31 - 60 days	32,576	30,023
61 - 90 days	21,060	19,376
91 - 120 days	23,756	21,894
121 - 365 days	302,935	279,225
	426,018	392,628
Housing rental		
Current (0 -30 days)	5,375	3,859
31 - 60 days	5,375	3,859
61 - 90 days	2,451	1,760
91 - 120 days	2,451	1,760
121 - 365 days	2,451	1,760
> 365 days	85,659	61,495
	103,762	74,493
Deposits no Receipts		
Current (0 -30 days)	(1,741,952)	(417,755)
Reconciliation of debt impairment provision		
Balance at beginning of the year	(48,863,098)	(37,021,873)
Contributions to provision	(20,700,885)	(12,593,066)
Debt impairment written off against provision	689,264	751,841
	(68,874,719)	(48,863,098)

Consumer debtors pledged as security

None of the consumers receivables were pledged as security.

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	69,186	6,390
Bank balances	1,349,663	171,603
Short-term deposits	4,776,137	3,154,641
	6,194,986	3,332,634

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
ABSA Bank - Current	1,349,663	477,900	272,167	1,349,663	171,603	272,167
ABSA Bank - Money market	-	-	514,849	-	-	514,849
ABSA Bank Call Accounts	28,303	3,044,198	1,598,460	28,303	3,044,198	1,598,460
ABSA Bank Medium Term Deposit	4,241,449	110,443	-	4,241,449	110,443	-
First National Bank	509,159	-	-	509,159	-	-
Total	6,128,574	3,632,541	2,385,476	6,128,574	3,326,244	2,385,476

14. Financial liabilities

Measured at amortised cost

Loan ABSA Bank over Equipment	1,225,956	1,634,083
ABSA Bank short term portion	403,551	358,703
DBSA Loans	1,318,117	1,433,130
DBSA loan - short term portion	182,425	131,567
	3,130,049	3,557,483

Non-current liabilities

At amortised cost	2,544,073	3,067,213
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Current liabilities

At amortised cost	585,976	490,270
	3,130,049	3,557,483

15. Conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

DWAF Drought Relief	-	1,810,707
INEG	411,555	-
COGTA - Waste Disposal Site	-	219,574
Social Development Grant	602,847	602,847
COGTA - Water Treatment Plant Warden	819,894	2,219,199
	1,834,296	4,852,327

Movement during the year

Balance at the beginning of the year	4,852,327	4,109,967
Received during the year	76,306,000	32,938,512
Income recognition during the year	(79,594,031)	(33,076,152)
Previous amount deducted paid back	270,000	880,000
	1,834,296	4,852,327

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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15. Conditional grants and receipts (continued)

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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16. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Environmental rehabilitation	1,503,000	135,270	1,638,270

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation	450,000	1,053,000	1,503,000

17. Trade and other payables from exchange transactions

Trade payables	54,612,724	40,657,541
Deposits received	634,988	633,374
	55,247,712	41,290,915

18. Consumer deposits

Water	236,820	234,172
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Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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19. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Financial liabilities at amortised cost	Total
Other financial liabilities	3,130,049	3,130,049
Trade and other payables	51,107,564	51,107,564
Consumer deposits	236,820	236,820
	54,474,433	54,474,433

2011

	Financial liabilities at amortised cost	Total
Other financial liabilities	3,557,483	3,557,483
Trade and other payables	40,833,598	40,833,598
Consumer deposits	234,172	234,172
	44,625,253	44,625,253

20. Revenue

Sale of goods	-	2,400
Rendering of services	3,411,389	470,422
Property rates	6,075,667	5,798,747
Service charges	23,978,308	20,261,124
Rental of facilities & equipment	1,298,625	905,669
Interest received – trading	2,530,514	2,113,738
Public contributions and donations	2,295,000	-
Fines	96,048	87,196
Licences and permits	28,948	13,099
Government grants & subsidies	81,955,077	79,436,646
	121,669,576	109,089,041

The amount included in revenue arising from exchanges of goods or services are as follows:

Sale of goods	-	2,400
Rendering of services	3,411,389	470,422
Service charges	23,978,308	20,261,124
Rental of facilities & equipment	1,298,625	905,669
Interest received – trading	2,530,514	2,113,738
Licences and permits	28,948	13,099
	31,247,784	23,766,452

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
20. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	6,075,667	5,798,747
Public contributions and donations	2,295,000	-
Fines	96,048	87,196
Transfer revenue		
Levies	81,955,077	79,436,646
	90,421,792	85,322,589
21. Property rates		
Rates received		
Residential	2,087,065	2,576,241
Small holdings and farms	3,988,602	3,222,506
	6,075,667	5,798,747
22. Service charges		
Sale of electricity	6,506,404	4,923,999
Sale of water	7,247,337	4,869,421
Solid waste	4,759,297	5,098,383
Sewerage and sanitation charges	5,170,670	5,369,321
Refuse removal	294,600	-
	23,978,308	20,261,124

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
23. Government grants and subsidies		
Equitable share	49,628,000	44,237,276
Finance Mangement Grant	1,300,000	3,000,000
Municipal System Information Grant	790,000	750,000
COGTA - CFO Grant	-	781,077
COGTA - Operating grant	1,399,304	-
DWAF	4,442,754	-
Social Development Grant	-	797,153
Thabo Mofutsanyana District Municipality	-	321,024
COGTA - Landfill sites	-	625,426
COGTA - Water Treatment Works Warden	-	698,335
INEG	2,228,445	-
MIG	21,947,000	16,662,260
COGTA	219,574	11,564,095
	81,955,077	79,436,646

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

MIG Grant

Balance unspent at beginning of year	-	454,260
Current-year receipts	21,947,000	15,328,000
Conditions met - transferred to revenue	(21,947,000)	(16,662,260)
Previous amount deducted paid back	-	880,000
	-	-

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
23. Government grants and subsidies (continued)		
DWAF - Drought relief		
Balance unspent at beginning of year	1,810,707	1,810,707
Current-year receipts	2,632,047	-
Conditions met - transferred to revenue	(4,442,754)	-
	-	1,810,707
COGTA - Landfill sites		
Balance unspent at beginning of year	219,574	445,000
Current-year receipts	(219,574)	400,000
Conditions met - transferred to revenue	-	(625,426)
	-	219,574
COGTA - Social development grant		
Balance unspent at beginning of year	602,847	1,400,000
Conditions met - transferred to revenue	-	(797,153)
	602,847	602,847
COGTA - Water treatment Warden		
Balance unspent at beginning of year	2,219,199	-
Current-year receipts	(1,399,305)	3,015,000
Conditions met - transferred to revenue	-	(698,335)
VAT - recovered from SARS	-	(97,466)
	819,894	2,219,199
Conditions still to be met - remain liabilities (see note 15).		
24. Other income		
Income awarded by Krynaauwslust Boerdery Trust	621,839	7,715,963

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
25. General expenses		
Advertising	266,715	196,358
Auditors remuneration	2,231,911	1,878,889
Bank charges	200,057	213,404
Chemicals	985,606	1,075,328
Community development and training	831,822	77,726
Conferences and delegations	58,350	130,986
Consulting and professional fees	1,512,707	1,842,538
Consumables	159,845	151,285
Debt collection commission	-	1,010
Entertainment	54,827	37,119
Flowers	3,500	10,601
Fuel and oil	1,175,126	767,974
Gifts	35,914	44,874
Debt collection commission	615,804	542,618
Lease rentals on operating lease	1,831,246	1,817,670
Magazines, books and periodicals	150	2,270
Medical expenses	653	714
Other expenses	143,950	(361,542)
Postage and courier	131,570	84,023
Printing and stationery	483,855	462,299
Promotions	146,894	28,793
Protective clothing	397,956	400,697
Refuse	524,999	2,163,100
Royalties and license fees	-	805
Membership fees	141,124	131,148
Telephone and fax	1,267,023	776,739
Title deed search fees	23,440	10,970
Training	175,828	61,407
Travel and subsistence	1,795,973	609,796
	15,196,845	13,159,599

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
26. Operating surplus		
Operating surplus for the year is stated after accounting for the following:		
Operating lease charges		
Equipment		
• Contractual amounts	485,762	1,420,002
Plant and equipment		
• Contractual amounts	1,345,484	397,668
	1,831,246	1,817,670
Depreciation on property, plant and equipment	16,840,002	16,531,258
Depreciation on investment property	242,375	-
Employee costs	32,348,766	25,801,285

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
27. Employee related costs		
Basic	19,826,322	17,183,487
Medical aid - company contributions	975,775	881,896
UIF contributions	206,253	165,079
WCA contributions	-	84,335
SDL	224,639	208,303
Other payroll levies	17,903	15,550
Leave pay provision charge	2,154,045	(890,457)
Post-employment benefits - Pension - Defined contribution plan	2,342,233	1,907,926
Overtime payments	1,381,677	1,271,256
Long-service awards	-	17,636
13th Cheques and other bonuses	-	1,052,005
Acting allowances	261,698	116,321
Car allowance	329,207	356,126
Housing benefits and allowances	35,553	34,029
Occupational Allowance	218,976	191,576
Standby Allowance	153,264	157,856
	28,127,545	22,752,924
Remuneration of municipal manager		
Annual Remuneration	366,559	494,880
Car Allowance	215,021	144,000
Performance and other bonuses	171,098	-
Company contributions to UIF, Medical and Pension Funds	42,624	-
Travel, motor car, accommodation, subsistence and other allowances	228,907	-
	1,024,209	638,880
Remuneration of chief finance officer		
Annual Remuneration	347,359	224,714
Car Allowance	184,074	120,786
Company contributions to UIF, Medical and Pension Funds	82,555	-
Travel, motor car, accommodation, subsistence and other allowances	186,753	-
	800,741	345,500

Included in the employee cost in note 26 is the remuneration for the Municipal Manager and the Chief Financial Officer as set out above.

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
28. Remuneration of councillors		
Executive Mayor	688,209	459,987
Councillors	3,533,012	2,588,374
	4,221,221	3,048,361
In-kind benefits		
The Executive Mayor and Speaker are full-time.		
The Mayor has one full-time bodyguard.		
The Mayor has the use of a vehicle owned by the municipality for official duties.		
29. Debt impairment		
Contributions to debt impairment provision	20,011,622	11,719,645
30. Investment revenue		
Finance income		
Bank	760,569	210,759
31. Depreciation and amortisation		
Property, plant and equipment	16,840,002	16,531,258
Investment property	242,375	-
	17,082,377	16,531,258
32. Finance costs		
Non-current borrowings	244,429	352,356
Bank	57,110	133,886
	301,539	486,242
33. Auditors' remuneration		
Fees	2,231,911	1,878,889
34. Contracted services		
Information Technology Services	1,030,458	841,445
Fleet Services	69,295	78,380
Specialist Services	185,685	294,323
Other Contractors	1,184,365	863,224
	2,469,803	2,077,372
35. Bulk purchases		
Electricity	12,603,941	10,086,232
Water	3,502,165	2,771,240
	16,106,106	12,857,472

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
36. Cash generated from operations		
Surplus	9,446,296	23,494,750
Adjustments for:		
Depreciation and amortisation	17,082,377	16,531,258
Debt impairment	20,011,622	11,719,645
Movements in retirement benefit assets and liabilities	237,000	221,000
Movements in provisions	135,270	1,053,000
Changes in working capital:		
Inventories	(71,461)	(19,441,159)
Trade and other receivables from exchange transactions	7,058,692	(6,982,120)
Other receivables from non-exchange transactions	(2,832,189)	(522,397)
Consumer debtors	(16,992,064)	(12,821,823)
Trade and other payables from exchange transactions	13,956,796	1,005,404
VAT receivable / payable	(242,655)	1,463,263
Conditional grants and receipts	(3,018,031)	742,360
Consumer deposits	2,648	5,584
GRAP 17	-	19,081,934
	44,774,301	35,550,699

37. Commitments

Authorised capital expenditure

Approved and contracted for

• Infrastructure	11,924,871	4,199,077
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38. Contingencies

Litigation is in process against the municipality to maintain the sewerage works at Warden as well to prevent / rehabilitate spillage on a farm in the vicinity of Vrede. There is a contingent liability of R25000000 which could be incurred to upgrade the sewerage works. Estimated legal costs amounts to R50000.

Litigation is in process against the municipality relating to services rendered by a service provider of the municipality. The claim being made by the plaintiff amounts to R2932109, and the estimated legal costs amounts to R60000.

The municipality is currently part of a settlement dispute with a former employee who is claiming to have been unfairly dismissed. The settlement requested by the employee amounts to R1320000.

39. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Statement of financial position

Inventories	-	19,081,935
Consumer Debtors	-	457,313
Investment Property	-	(242,375)
Property, plant and equipment	-	135,660,721
Intangible assets	-	15,287
Trade and other payables from exchange transactions	-	(14,414,114)
Financial liabilities	-	(95,706)
Consumer deposits	-	(2,648)
Conditional grants and receipts	-	3,018,031
Financial liabilities	-	523,140
Retirement benefit obligation	-	(237,000)
Provisions	-	(135,270)

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
39. Comparative figures (continued)		
Statement of Financial Performance		
Revenue	-	(5,552,449)
Expenses	-	35,847,492
40. Going concern		
The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.		
41. Unauthorised expenditure		
Opening balance	33,863,487	-
Unauthorised expenditure - current year	5,382,750	33,863,487
	39,246,237	33,863,487
42. Fruitless and wasteful expenditure		
Opening balance	2,226,418	2,067,280
Fruitless and wasteful expenditure - current year	515,960	159,138
	2,742,378	2,226,418
43. Irregular expenditure		
Opening balance	70,027,642	49,171,897
Irregular Expenditure - current year	41,878,514	39,315,083
Amounts condoned or written off by Council	-	(18,459,338)
	111,906,156	70,027,642

Phumelela Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2012	2011
43. Irregular expenditure (continued)		
Analysis of expenditure awaiting condonation per age classification		
Current year	41,878,514	39,315,083
Prior years	70,027,642	30,712,559
	111,906,156	70,027,642
44. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	-	131,148
Amount paid - current year	-	(131,148)
	-	-
Audit fees		
Opening balance	22,543	556,778
Current year subscription / fee	2,231,911	1,878,889
Amount paid - current year	(2,254,454)	(2,413,124)
	-	22,543
PAYE and UIF		
Current year subscription / fee	2,346,530	2,069,426
Amount paid - current year	(2,346,530)	(2,069,426)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	3,093,158	3,649,562
Amount paid - current year	(3,093,158)	(3,649,562)
	-	-
VAT		
VAT receivable	1,372,704	1,130,049

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

30 June 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
T.J. Motaung	1,733	440	2,173
A.D. Radebe	2,921	11,969	14,890
L.M. Msimanga	259	47	306
J.M. Ngwenya-Sithebe	228	243	471
T.E. Radebe	525	1,007	1,532
	5,666	13,706	19,372

30 June 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
J.M. Ngwenya-Sithebe	328	3,721	4,049

45. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	3,130,049	3,557,483
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Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

46. Statement of comparative and actual information

2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
Property rates	9,018,000	7,677,000	7,677,000	6,075,667	1,601,333	79 %	67 %
Service charges	28,100,000	30,833,693	30,833,693	23,978,308	6,855,385	78 %	85 %
Investment revenue	250,000	6,123,001	6,123,001	760,569	5,362,432	12 %	304 %
Transfers recognised - operational	55,346,000	56,249,000	56,249,000	59,788,503	(3,539,503)	106 %	108 %
Other own revenue	-	-	-	7,987,363	(7,987,363)	DIV/0 %	DIV/0 %
Total revenue (excluding capital transfers and contributions)	92,714,000	100,882,694	100,882,694	98,590,410	2,292,284	98 %	106 %
Employee costs	28,397,000	28,342,282	28,342,282	(28,127,545)	56,469,827	(99)%	(99)%
Remuneration of councillors	3,567,000	3,653,035	3,653,035	(4,221,221)	7,874,256	(116)%	(118)%
Debt impairment	6,045,000	6,045,000	6,045,000	(20,011,622)	26,056,622	(331)%	(331)%
Depreciation and asset impairment	3,950,000	3,950,000	3,950,000	(17,082,377)	21,032,377	(432)%	(432)%
Finance charges	444,000	390,000	390,000	(301,539)	691,539	(77)%	(68)%
Materials and bulk purchases	29,899,000	32,078,455	32,078,455	(16,106,106)	48,184,561	(50)%	(54)%
Transfers and grants	3,000,000	3,000,000	3,000,000	(1,823,823)	4,823,823	(61)%	(61)%
Other expenditure	20,824,000	20,824,000	20,824,000	(25,931,455)	46,755,455	(125)%	(125)%
Total expenditure	96,126,000	98,282,772	98,282,772	(113,605,688)	211,888,460	(116)%	(118)%
Surplus/(Deficit)	188,840,000	199,165,466	199,165,466	(15,015,278)	214,180,744	(8)%	(8)%

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

46. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	-	-	-	22,166,574	(22,166,574)	DIV/0 %	DIV/0 %
Contributions recognised - capital and contributed assets	-	-	-	2,295,000	(2,295,000)	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	188,840,000	199,165,466	199,165,466	9,446,296	189,719,170	5 %	5 %
Surplus/(Deficit) for the year	188,840,000	199,165,466	199,165,466	9,446,296	189,719,170	5 %	5 %

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

46. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows							
Net cash from (used) operating	35,550,700	35,550,700	35,550,700	44,774,301	(9,223,601)	126 %	126 %
Net cash from (used) investing	(36,475,900)	(36,475,900)	(36,475,900)	(41,484,515)	5,008,615	114 %	114 %
Net cash from (used) financing	-	-	-	(427,434)	427,434	DIV/0 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	(925,200)	(925,200)	(925,200)	2,862,352	(3,787,552)	(309)%	(309)%
Cash and cash equivalents at the beginning of the year	-	-	-	3,332,634	(3,332,634)	DIV/0 %	DIV/0 %
Cash and cash equivalents at year end	(925,200)	(925,200)	(925,200)	6,194,986	(7,120,186)	(670)%	(670)%

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Appendix A

June 2012

Schedule of external loans as at 30 June 2012

Loan Number	Redeemable	Balance at 30 June 2011	Received during the period	Redeemed written off during the period	Balance at 30 June 2012	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
Loan Stock							
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
Structured loans							
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
Funding facility							
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
Development Bank of South Africa							
Thembalihle Sewerage Network	103	301,975	-	36,817	265,158	-	-
Vrede Water Network	404	1,161,827	-	68,282	1,093,545	-	-
Memel Sewerage Network	502P	60,388	-	10,532	49,856	-	-
Memel Water Network	502T	111,771	-	19,800	91,971	-	-

Appendix A

June 2012

Schedule of external loans as at 30 June 2012

Loan Number	Redeemable	Balance at 30 June 2011	Received during the period	Redeemed written off during the period	Balance at 30 June 2012	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
		-	-	-	-	-	-
		1,635,961	-	135,431	1,500,530	-	-
Bonds							
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
Other loans							
ABSA HP - Olivetti Office Equipment and computers		1,634,083	-	408,627	1,225,456	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		1,634,083	-	408,627	1,225,456	-	-
Lease liability							
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
Annuity loans							
		-	-	-	-	-	-

June 2012

Schedule of external loans as at 30 June 2012

Government loans

- Loan Stock
- Structured loans
- Funding facility
- Development Bank of South Africa
- Bonds
- Other loans
- Lease liability
- Annuity loans
- Government loans

Appendix B

June 2012

Analysis of property, plant and equipment as at 30 June 2012

Cost/Revaluation							Accumulated depreciation						
Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand

Land and buildings

Land (Separate for AFS purposes)	26,627,628	-	-	-	-	-	26,627,628	4,104	-	-	1,368	-	5,472	26,266,260
Landfill Sites (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quarries (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings (Separate for AFS purposes)	20,744,050	-	-	-	-	-	20,744,050	2,834,784	-	-	944,928	-	3,779,712	19,799,122
47,371,678	-	-	-	-	-	-	47,371,678	2,838,888	-	-	946,296	-	3,785,184	46,065,382

Infrastructure

Roads, Pavements & Bridges	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Storm water	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Generation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transmission & Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Street lighting	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dams & Reservoirs	107,424	-	-	-	-	-	107,424	30,672	-	-	10,224	-	40,896	97,200
Water purification	2,809,201	-	-	-	-	-	2,809,201	544,484	-	-	181,495	-	725,979	2,627,706
Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sewerage purification	235,248	-	-	-	-	-	235,248	27,144	-	-	9,048	-	36,192	226,200
Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waste Management	323,799	-	-	-	-	-	323,799	54,939	-	-	18,313	-	73,252	305,486
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (fibre optic, WIFI infrastructure)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3,475,672	-	-	-	-	-	-	3,475,672	657,239	-	-	219,080	-	876,319	3,256,592

Community Assets

Parks & gardens	419,130	-	-	-	-	-	419,130	57,591	-	-	19,197	-	76,788	399,933
Sportsfields and stadium	149,204	-	-	-	-	-	149,204	51,526	-	-	17,175	-	68,701	217,905
Swimming pools	308,753	-	-	-	-	-	308,753	98,166	-	-	32,722	-	130,888	276,031
Community halls	6,412,073	-	-	-	-	-	6,412,073	608,273	-	-	202,758	-	811,031	6,209,316
Libraries	9,298,468	-	-	-	-	-	9,298,468	832,066	-	-	277,355	-	1,109,421	9,021,113
Recreational facilities	4,566,254	-	-	-	-	-	4,566,254	727,812	-	-	242,604	-	970,416	4,323,650
Clinics	2,619,887	-	-	-	-	-	2,619,887	364,047	-	-	121,349	-	485,396	3,105,283
Museums & art galleries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	4,199,536	-	-	-	-	-	4,199,536	717,219	-	-	239,073	-	956,292	3,960,463
Social rental housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cemeteries	171,360	-	-	-	-	-	171,360	98,820	-	-	32,940	-	131,760	138,420
Fire, safety & emergency	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security and policing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
28,144,665	-	-	-	-	-	-	28,144,665	3,555,520	-	-	1,185,173	-	4,740,693	27,652,114

Appendix B

June 2012

Analysis of property, plant and equipment as at 30 June 2012

Cost/Revaluation

Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	2,010	-	-	-	-	-	2,010	-	-	-	-	-	-	2,010
	2,010	-	-	-	-	-	2,010	-	-	-	-	-	-	2,010
Specialised vehicles														
Refuse	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conservancy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ambulances	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets														
General vehicles	3,926,791	-	-	-	-	-	3,926,791	1,103,566	-	-	759,765	-	1,863,331	2,063,738
Plant & equipment	2,015,343	652,772	-	-	-	-	2,668,115	634,200	-	-	481,246	-	1,115,446	1,152,670
Computer Equipment	939,326	493,541	-	-	-	-	1,432,867	247,237	-	-	362,519	-	609,756	796,112
Computer Software (part of computer equipment)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Furniture & Fittings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Office Equipment	2,607,786	314,644	-	-	-	-	2,922,430	594,261	-	-	511,673	-	1,105,934	1,816,496
Office Equipment - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Abattoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Markets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Airports	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security measures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civic land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other land	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bins and Containers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Work in progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus Assets - (Investment or Inventory)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	9,489,246	1,460,957	-	-	-	-	10,950,203	2,579,264	-	-	2,115,203	-	4,694,467	5,829,016
Total property plant and equipment														
Land and buildings	47,371,678	-	-	-	-	-	47,371,678	2,838,888	-	-	946,296	-	3,785,184	46,065,382
Infrastructure	3,475,672	-	-	-	-	-	3,475,672	657,239	-	-	219,080	-	876,319	3,256,592
Community Assets	28,144,665	-	-	-	-	-	28,144,665	3,555,520	-	-	1,185,173	-	4,740,693	27,652,114
Heritage assets	2,010	-	-	-	-	-	2,010	-	-	-	-	-	-	2,010
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	9,489,246	1,460,957	-	-	-	-	10,950,203	2,579,264	-	-	2,115,203	-	4,694,467	5,829,016

June 2012

Analysis of property, plant and equipment as at 30 June 2012	
Cost/Revaluation	Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
	88,483,271	1,460,957	-	-	-	-	89,944,228	9,630,911	-	-	4,465,752	-	14,096,663	82,805,114
Agricultural/Biological assets														
Agricultural	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets														
Computers - software & programming	22,572	124,799	-	-	-	-	147,371	7,285	-	-	36,488	-	43,773	103,599
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	22,572	124,799	-	-	-	-	147,371	7,285	-	-	36,488	-	43,773	103,599
Investment properties														
Investment property	4,996,365	-	-	-	-	-	4,996,365	727,124	-	-	242,375	-	969,499	4,753,990
	4,996,365	-	-	-	-	-	4,996,365	727,124	-	-	242,375	-	969,499	4,753,990
Total														
Land and buildings	47,371,678	-	-	-	-	-	47,371,678	2,838,888	-	-	946,296	-	3,785,184	46,065,382
Infrastructure	3,475,672	-	-	-	-	-	3,475,672	657,239	-	-	219,080	-	876,319	3,256,592
Community Assets	28,144,665	-	-	-	-	-	28,144,665	3,555,520	-	-	1,185,173	-	4,740,693	27,652,114
Heritage assets	2,010	-	-	-	-	-	2,010	-	-	-	-	-	-	2,010
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	9,489,246	1,460,957	-	-	-	-	10,950,203	2,579,264	-	-	2,115,203	-	4,694,467	5,829,016
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agricultural/Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	22,572	124,799	-	-	-	-	147,371	7,285	-	-	36,488	-	43,773	103,599
Investment properties	4,996,365	-	-	-	-	-	4,996,365	727,124	-	-	242,375	-	969,499	4,753,990
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	93,502,208	1,585,756	-	-	-	-	95,087,964	10,365,320	-	-	4,744,615	-	15,109,935	87,662,703

June 2012

	Prior Year	Current Year
Segmental Statement of Financial Performance for the year ended		

[illegible]

Appendix D

June 2012

Segmental Statement of Financial Performance for the year ended

Prior Year			Current Year			
Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand	Rand	Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
-	-	-		-	-	-
-	-	-		-	-	-
-	-	-		-	-	-
-	-	-		-	-	-
-	-	-		-	-	-
-	-	-		-	-	-
117,015,762	93,521,017	23,494,745	Total	123,051,984	113,605,688	9,446,296

Appendix E(1)

June 2012

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2012

	Forecast # 1 2012 Act. Bal.	Current year 2011 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
	Rand	Rand	Rand		
Revenue					
Sale of goods	-	-	-	-	
Sale of goods in agricultural activities	-	-	-	-	
Rendering of services	3,411,389	-	3,411,389	-	
Rendering of services in agricultural activities	-	-	-	-	
Property rates	6,075,667	7,677,000	(1,601,333)	(20.9)	
Service charges	23,978,308	30,833,693	(6,855,385)	(22.2)	
Levies	-	-	-	-	
Property rates - penalties imposed and collection charges	-	-	-	-	
Sales of housing	-	-	-	-	
Construction contracts	-	-	-	-	
Royalty income	-	-	-	-	
Rental of facilities and equipment	1,298,625	-	1,298,625	-	
Interest received (trading)	2,530,514	61,230	2,469,284	,032.8	
Dividends received	-	-	-	-	
Income from agency services	-	-	-	-	
Public contributions and donations	2,295,000	-	2,295,000	-	
Fines	96,048	-	96,048	-	
Licences and permits	28,948	-	28,948	-	
Government grants & subsidies	81,955,077	56,249,000	25,706,077	45.7	
Municipal Revenue UD1	-	-	-	-	
Municipal Revenue UD2	-	-	-	-	
Revenue 1	-	-	-	-	
Revenue 2	-	-	-	-	
Miscellaneous other revenue	-	-	-	-	
Administration and management fees received	-	-	-	-	
Fees earned	-	-	-	-	
Commissions received	-	-	-	-	
Royalties received	-	-	-	-	
Rental income	-	-	-	-	
Discount received	-	-	-	-	
Recoveries	-	-	-	-	
Other income 1	-	-	-	-	
Other income 2	-	-	-	-	
Other income 3	-	-	-	-	
Other income	621,839	3,914,396	(3,292,557)	(84.1)	
Other farming income 1	-	-	-	-	
Other farming income 2	-	-	-	-	
Other farming income 3	-	-	-	-	
Other farming income 4	-	-	-	-	
Other farming income	-	-	-	-	
Government grants	-	-	-	-	
Interest received - investment	760,569	-	760,569	-	

Appendix E(1)

June 2012

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2012

	Forecast # 1 2012 Act. Bal.	Current year 2011 Adjusted budget	Variance	Explanation of Significant Variances greater than 10% versus Budget
Interest received - other	-	-	-	-
Dividends received	-	-	-	-
	123,051,984	98,735,319	24,316,665	24.6
Expenses				
Personnel	(28,127,545)	(28,342,282)	214,737	(0.8)
Manufacturing -	-	-	-	-
Employee costs				
Remuneration of	(4,221,221)	(3,653,035)	(568,186)	15.6
councillors				
Administration	-	-	-	-
Transfer payments	-	-	-	-
Depreciation	(17,082,377)	(3,950,000)	(13,132,377)	332.5
Impairment	-	-	-	-
Amortisation	-	-	-	-
Impairments	-	-	-	-
Reversal of impairments	-	-	-	-
Finance costs	(301,539)	(390,000)	88,461	(22.7)
Debt impairment	(20,011,622)	(6,045,000)	(13,966,622)	231.0
Collection costs	-	-	-	-
Repairs and maintenance	-	-	-	-
- Manufacturing expenses				
Repairs and maintenance	(8,264,807)	-	(8,264,807)	-
- General				
Repairs and maintenance	-	-	-	-
- General				
Bulk purchases	(16,106,106)	(32,078,455)	15,972,349	(49.8)
Contracted Services	(2,469,803)	-	(2,469,803)	-
Grants and subsidies paid	(1,823,823)	(3,000,000)	1,176,177	(39.2)
Cost of housing sold	-	-	-	-
General Expenses	(15,196,845)	(25,261,875)	10,065,030	(39.8)
Other (taken out of	-	-	-	-
General expenses)				
Other (taken out of	-	-	-	-
General expenses)				
Other (taken out of	-	-	-	-
General expenses)				
Other (taken out of	-	-	-	-
General expenses)				
Other (taken out of	-	-	-	-
General expenses)				
	(113,605,688)	(102,720,647)	(10,885,041)	10.6
Other revenue and costs	-	-	-	-
Net surplus/ (deficit) for the year	9,446,296	(3,985,328)	13,431,624	(337.0)

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2012

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun		Yes/ No	
Financial	National Government	-	00,000	-	-	-	-	25,000	25,000	25,000	25,000	-	-	-	-	-		No	
Equitable Share	National Government	-	91,000	09,000	29,000	-	-	07,250	07,250	07,250	07,250	-	-	-	-	-			
Municipal System Improvement Grant	National Government	-	90,000	-	-	-	-	97,500	97,500	97,500	97,500	-	-	-	-	-			
INEG	National Government	-	80,000	60,000	-	-	-	57,111	57,111	57,111	57,111	-	-	-	-	-			
DWARF	National Government	-	08,259	-	23,788	-	-	58,012	58,012	58,012	58,012	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	69,259	69,000	52,788	-	-	44,873	44,873	44,873	44,873	-	-	-	-	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.